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RURAL COMMUNITY VIABILITY--  
AN OVERVIEW

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## RURAL COMMUNITY VIABILITY--AN OVERVIEW

Thomas F. Stinson

America's rural, resource based economies have been under stress during the 1980s. Agriculture, mining, and the forest products industry have all undergone major declines, resulting in unemployment, lower incomes, and diminished economic opportunities for those living outside the metropolitan areas. Local economies continue their adjustments to these changes. Problems now are most visible on main street where store owners have been forced to cut back employment, and in some instances shut down, due to dwindling sales.

The structural adjustments of the eighties, have brought back fears that many of America's small towns will disappear. Those concerns were quieted temporarily by the rural-urban turnaround, and the high farm prices of the 1970s. Today though, the long history of declining farm populations, rural out-migration, and ever lower main street business activity seem particularly relevant to the residents of many rural communities. Even in the rural manufacturing based economies many are questioning whether their community will survive.

Rural residents are demanding new policy initiatives designed to enhance the local economy and maintain the existing quality of life. Additional federal support is unlikely, increasing the importance of state, and local, self-help programs. Funds for rural development will be limited, emphasizing the need to allocate scarce resources to communities and projects where benefits will be the greatest. Specific communities and specific programs must be targeted for funding.

Ideally, the choice of communities and programs will be based on objective criteria. But, unfortunately, the research base necessary for developing those criteria does not exist. There is no well specified and generally agreed upon definition of a viable rural community, let alone information on how to improve the viability of rural communities or how to select from among the communities requesting special assistance.

This paper is an initial step toward meeting some of those information needs. Its focus is on integrating the contributions of several academic disciplines into a working definition of viable rural community. No final definition is offered, nor is that the purpose of this paper. Instead, the goal is to provide common ground for discussions among policy makers and local residents, planners and researchers as they attempt to maintain the viability of rural communities.

The paper has three distinct parts. The first, and longest discusses alternative definitions of "viable rural community". That expression has a distinct popular connotation, but as with many popular phrases, its meaning depends greatly on the background of the individual. The ambiguity is caused in part by the fact several academic disciplines have specific technical meanings for the word "community" and some of these definitions are not mutually consistent. Shorter sections describing research on the characteristics of viable rural communities and the problems of measurement, and examining some of the key intervention strategies follow.

#### DEFINING "VIABLE RURAL COMMUNITY"

Everyone knows what a viable rural community is. It is a small town surrounded by prosperous farms. One where there are enough new jobs so local youth, after they graduate from high school, can find work without having to move to the nearest metropolitan area. Where those returning after joining the service can find a good job, and where even some of those who went off to college, can find employment when they return after tiring of life in the city.

The houses are neat and well kept. Main street and the buildings lining it have not been allowed to deteriorate. People are friendly and actively involved in the community. The school system is large enough to offer a diversity of courses--including German, real analysis, and two computer courses--yet small enough that parents feel teachers really get to know their students.

Local taxes raise enough money to pay for good public services, but they are not too high (although everyone knows that if the city does not receive that federal grant to upgrade the sewage treatment plant, taxes will go out of sight.) The city hall is new--built in the 1960s, and the library is still in the old building in the park. The volunteer fire department purchased a new attack truck only three years ago.

There are at least two doctors and two dentists, and the county hospital is near by. There are at least three churches, each with a growing congregation. A local cafe, a fast food drive-in for the teenagers, and two bars. Downtown there are two grocery stores, a drugstore, a J.C. Penney, a Woolworth or Ben Franklin, a parts store, a good hardware store, a bank, and a movie theater (although it is now open only on the weekends.) The bus still stops in town, but the last time a passenger train stopped was in 1963.

In short, it is a real life, slightly more prosperous version of Garrison Keillor's Lake Wobegone. And, like Lake Wobegone, you cannot find it on the map. This publicly shared

vision of a viable rural community, serves a useful purpose for the national psyche, recalling an idyllic situation somehow bypassed by the problems of today's urban and rural communities. Unfortunately, it is of little value in formulating public policy to assist today's small towns. The concepts are simply too vague and too ideal to have real world meaning.

If the phrase "viable rural community" is to be useful in the policy debate, it must be better defined. And, when one searches for a working definition one finds no general agreement on the characteristics of a viable rural community. This section is an attempt to clarify discussions by examining alternative definitions sometimes attached to each of the words in the phrase "viable rural community".

### "Rural"

Rural is the easiest of the words to define. But, even here, multiple definitions exist. The Census Bureau's is the most restrictive, reserving "rural" to describe those living outside urbanized areas in places of less than 2,500 residents. An "urbanized area" includes the closely settled territory surrounding a central city including incorporated places with fewer than 2,500 inhabitants provided that each has a closely settled area of 100 housing units or more, as well as other small parcels of land with relatively high population densities.

Most would choose a somewhat broader definition. Using the Census definition would certainly limit the scope of the problem and the set of possible solutions. But it also would ignore many communities considered rural by most Americans. Even the U.S. Department of Agriculture uses broader based definitions for program and research purposes.

At least two alternative definitions are used by USDA. One considers as rural all communities located in counties outside the nation's Metropolitan Statistical Areas (MSA). These MSA's are generally counties containing cities of 50,000 or more and their suburbs, although there are some exceptions. This "rural residual" approach includes all cities with populations less than 50,000, not located in a county with substantial commuting to a major urban center in the set of rural communities.

Farmers Home Administration, one of USDA's action agencies, goes even further. FmHA is able to make loans and commit funds to communities with populations less than 10,000, located in urban counties other than those in which the central city is located, as well as in small towns in counties outside the MSA.

The USDA definitions highlight the two major problems which must be dealt with when defining rural. The first, is that some

rural communities may be excluded because they are located in the same county as a large city. Communities on Minnesota's Iron Range would not be termed rural under USDA's rural residual approach. Nor would small logging towns like Darrington, Washington, and farm communities New Salem, North Dakota, communities substantially removed from the urban build up, yet located in a metro county.

The second problem with relying on the MSA definition is that it will designate some communities as rural that many in the state might consider urban. Butte, Montana is an example. Data constraints make it necessary to use county boundaries to divide between urban and rural areas, but commuting patterns and the geographic dispersion of population across a county make it almost impossible to produce a definition of rural consistent with everyone's perceptions.

The lesson appears clear. A simple rural-urban dichotomy does not work well. There is no single, unique dividing line between urban and rural. Instead, there are degrees of rurality and those differences should be recognized.

Researchers have been more successful in devising ways of subclassifying rural counties than in determining which small towns in metro counties should be considered rural. Hines, Brown, and Zimmer did early work delineating counties by degree of rurality. More recent, unpublished work by Beale and by Sullivan have updated those classifications, making them consistent with the 1970 and 1980 Census. Borchert makes use of a similar scale for counties dependent on the size of largest city and commuting and trade relationships with the central city in the nearest MSA. FmHA's approach has been a practical, case by case solution to the problem of defining which communities in metro areas are rural.

While there is general agreement that the Census definition of rural is too narrow, there is no agreement on an appropriate extension. Resolving this issue is not a high priority item on most research agendas, but the definition chosen will have an enormous impact on the direction of future programs and policies and on the distribution of funds for rural development.

### "Community"

Defining rural is a simple task compared to reaching agreement on the meaning of "community". Each academic discipline studying regional systems has chosen to emphasize and delineate according to their research interests. The result when viewed from outside has been confusing and sometimes contradictory. No single definition is appropriate for use by everyone.

This section will not remedy that problem. Instead, it will briefly review alternatives used by those active in rural development. The goal is to make more explicit the assumptions behind particular views of community.

Perhaps the simplest approach is to conform with a unit of local government. A rural community then, is that set of people residing within the boundaries of a particular political jurisdiction. Cities, towns, and organized townships are all examples of such communities, and that set of physical boundaries is the starting point for most definitions of rural community.

This approach has a major problem, it excludes much of the nation's land area, and the people living in that space from consideration. Demographers solve that problem by expanding the set of enumerating districts to include minor civil divisions and census civil divisions. These additional places, used to fill in the space around the incorporated cities, towns, and townships, allow a complete count of everyone living in a specific geographic region, but they do not reflect the existence of (or lack of) any close ties among residents, nor do they reflect any particular group identity among the individuals enumerated. Minor civil divisions and census civil divisions have little capacity to organize or act independently, or to conduct development activity. A casual visitor would not even recognize that a community exists.

A useful definition of community will not overlook those living outside the boundaries of incorporated cities and towns. Farmers, and those living in small unincorporated enclaves play an important role in the local economy and contribute to the quality of life. These households are tied to those living inside the city limits through business and civic activity, churches and schools, and their presence and contributions must be acknowledged.

Rural sociologists, unencumbered by the problems of drawing physical boundaries, define community more broadly. Wilkinson began his 1985 Rural Sociological Society presidential address by noting that "Community is a most appealing concept in sociology." But, he continued, "the meaning of the concept of community is most elusive." He then described three key elements which identify a community. Wilkinson defines a community as a collective organization through which residents of a small territory meet their daily needs. This organization has sufficient structures and institutions to meet all daily needs and to express all the major common interests of its members. It also contains a field of actions, collective efforts to solve local problems, and collective expressions of local identity and solidarity. Goudy and Ryan use a simpler definition, "a place where people can and typically do satisfy most of their basic needs."

These definitions are sufficiently broad so that all relevant groups of individuals qualify. But, they also are so general and ambiguous that they provide little guidance or direction for those trying to identify policy options. Such definitions could be used to identify the business community, a community of scholars, or a state. Under these definitions almost any target group could be studied or selected for special assistance.

Economists provide little help. Their concerns are markets and trade areas. All geographic areas, no matter how sparsely populated, have an identifiable local economy. The major difference is in the amount of leakage from the local economy or the size of the rest of the world sector. In regional economics definition of community is largely pragmatic.

Economic geographers and central place theorists have probably come closest to a useful definition for development policy purposes. Focussing on the concept of trade or market areas a hierarchy of communities has been established. The classification system begins with the assumption that consumers desire, other things equal, to minimize transportation costs. The tradeoff between transportation costs and lower prices attributable to size economies then produces a spatial ordering of communities with lower order trading centers providing for everyday needs and higher order central places providing more specialized services serving a larger market area.

Communities are categorized by the complement of goods and services offered within their boundaries. The result is a hierarchy of communities with individuals being counted as part of smaller, everyday trading centers as well as the market for the specialized services offered in larger communities. The community or central place is defined to include all who regularly act in that market regardless of the political jurisdiction in which they reside.

Borchert and Adams classified trade centers as part of their work for the Upper Midwest Economic Study. More recently Borchert has revisited that issue examining the changes over the last two decades.

#### "VIABLE":

"Viable" is a word without a specialized social science definition, but with multiple popular meanings. Even the dictionary definition, "capable of existence and development as an independent unit", reflects that ambiguity.

For a community questions of existence are quite different from those of development. A community might well be capable of



existing (or of not ceasing to exist) while unlikely to develop further. And, what might be considered development under some definitions of community--economic growth for example, might be considered antithetical to community development from other perspectives.

The dictionary definition makes a second important point. It limits "viability" to independent units. But, today no community is independent. All are tied to the national economy, and all receive subsidies from the state and federal governments. Those subsidies have been and continue to be so substantial and so fundamental to local growth that there is no way to identify which communities are truly viable and which would deteriorate in the absence of subsidies. Farm programs, local government aids, and the pattern of public sector investments all are examples of the broad class of subsidies which affect local economies.

As popularly used "viable communities" appears to refer to those communities expected to continue playing the same role in their residents' lives. The same set of goods and services will be available, and the existing social structure will remain. The community is expected to retain its place in the hierarchy of the surrounding communities. There is also an implicit assumption that should external shocks occur a viable community will be able to continue by regenerating itself from within.

Three items are not handled well in the popular definition. The first is growth. Are communities viable if they are capable only of maintaining their population or the absolute size of the local economy. Or, should "viable" be reserved for communities expected to grow? If the growth criterion is used, what should be measured--population, employment, or share of personal income? And, how much growth is necessary to be considered viable?

The second item relates to the evolution of the spatial economy. Improved transportation and communication have eliminated the need for some lower level central places and changed the set of goods and services available in all. Consumers are much more willing to commute to larger shopping areas for everyday purchases. Consequently, some local trade centers no longer are needed in the roles they played in the 1950s and 1960s. These communities are evolving into lower order centers. In addition, in the lower order centers (particularly the hamlets) fewer services are offered. Viability must be defined in this dynamic context. The issues for debate are whether communities are viable only if they will retain their place in the spatial hierarchy, and whether hamlets are viable only if they provide the same complement of services and goods offered earlier.

Similarly, a community's social structure may change independently. Rural communities located in the extended

metropolitan area may evolve into bedroom communities, providing housing for those who work in an urban center, but prefer to live outside it. Such a transition changes the community. Some services needed by individuals will be obtained from businesses near the workplace rather than those near the residence. Long term residents will notice the disappearance of certain firms. Whether those changes show the passing of the community, or simply a logical evolution in role and structure for a viable community is an important question.

#### What is a "Viable Rural Community"?

Synthesizing a final, generally accepted definition of viable rural community is clearly impossible. The term is subjective, and reasonable people will disagree on which groups of households qualify. There will be disagreement on what constitutes a community, and on whether particular communities are viable. Systematically identifying common characteristics of viable communities is likely to be an impossible task.

Never-the-less, even without a concise definition, some things are obvious. First, the definition of community cannot stop at the city limits. Open country residents who play an important role in the local economic and social structure must be included. How those individuals are included and how the geographic boundaries of the community are drawn remain open questions, but the concept of community cannot be limited to the area within a city's borders.

It also is clear that viability is a complex, intertemporal concept with many possible interpretations. Dynamic forces in the economy are continually reshaping the role rural communities play in the lives of their residents. Viability must be defined within a context which allows for that evolution in roles.

Finally, it is important to remember that any community can be made viable given enough outside support. Although the popular perception is that viable communities are those capable of making it on their own, all communities receive substantial outside support. Such support is essential if national economic efficiency goals are to be met, for without it insufficient levels of goods and services with external or spillover benefits will not be provided.

Recognition of the potential viability of all rural communities greatly complicates the policy formulation process. Now, a multi-stage decision making process is necessary. The first decision is one of deciding on the amount of resources available to subsidize communities. The second step is choosing which communities are to be made viable given the funds available.

## Characteristics of Viable Rural Communities

Attempts to identify viable rural communities using existing socio-economic data face major difficulties. The most obvious is that without agreement on a general definition of "viable rural community", there is no guidance on the key variables to examine. This is not to say that there are no simple measures or indicators of viability which can be used. A stable or growing population is one indicator; local economic growth, another. But, single dimensional measures of viability can easily be misleading.

Consider, for example, the problems of classifying a community with a stable population and increasing income base, but where income growth is due to increased labor force participation and commuting to jobs located in other communities. Or, the question of whether a community with a stable population and increasing incomes, but where all income growth is due to increased transfer payments to the community's elderly, should be considered viable.

There are, of course, more complicated measures of a community's ability to survive. One can look at the age structure as well as population growth, and one can look at present and projected sources of income. Since the late 1970s much of the growth in rural incomes has been through transfer payments to the elderly. Federal farm payments have made up a substantial portion of farm income during the 1980. Both of those factors should be taken into account when assessing the viability of particular communities. But, even if those items are taken into account, data on other, less easily quantified attributes of the community may be necessary to fully identify viable communities.

When multi-dimensional measures of viability are considered the problems are similar to those faced by researchers trying to construct a system of social accounts. Not only is there no agreement on which elements constitute a rural community, there is no framework for combining and integrating diverse demographic, social, political, and economic data into a measure of viability.

The current national income accounts, which measure gross national product and personal income, have a strong theoretical foundation which determines where particular elements should be counted and how they should be weighted. Without a similar integrating framework individuals devising a system of social accounts or a method for identifying viable rural communities, have no way of determining how measures of quality of health and access to retail shopping should be weighted and combined.

Many items should be included in a comprehensive measure of community viability. The status of local public and private infra structure (the water system, the school buildings, the wastewater treatment plant, and main street buildings), the community's stock of human capital, and the importance today and in the future of the particular competitive advantage which in the past allowed a community to emerge at this particular geographic location are all important to the long term health of any community.

The viability of many rural communities cannot be assessed without a set of expectations about what will happen to agriculture. Two questions appear to be particularly important. The first is whether the farm crisis of the 1980s will result in further consolidation of farms, or whether most size economies already have been exhausted. Another round of farm consolidation would further shrink the population base served by local merchants, making it even more difficult for many to generate sufficient sales to remain in business.

The federal conservation reserve program and state programs such as Minnesota's RIM plan which retire land from production complicate the analysis. Land retirement programs can further reduce the number of farm families active in the community by reducing the land available for cultivation. Over the short term though, the local population may not decline, as retiring farm owners may choose to remain in the area. But, if the land remains permanently out of production, the local economic base will decline over the long term.

The federal conservation reserve program, and the scheduled phase-out of the farm deficiency payments also raise questions about the future of farmers raising crops on marginal land, and the communities which serve those farmers. Some land that is marginal for one crop (corn for instance) may be shifted to other, less intensive uses (wheat) if current farm support levels change. But, less intensive land use will require fewer local farmers, resulting in a smaller farm population. This is but one example of how future federal policy can affect the prospects of an otherwise viable rural community.

Finally, one needs to be concerned with the changes in the types of services required in certain types of communities. As transportation and communication linkages improve, the needs for some local services and establishments will lessen, resulting in a gradual relocation of that activity to other, higher order trade centers. The definition of what comprises a particular type of central place is changing. Thus the viability of lower order central places may not be threatened, even though particular types of establishments (movie theaters, for example) have disappeared. What is occurring is a realignment of responsibility for the provision of specific services within the

spatial hierarchy, not necessarily a harbinger of doom for the community.

Those trying to implement a measurement system for social characteristics face two problems. The first, defining a weighing system for diverse measures of social characteristics has been approached in two ways. Some, when measuring social characteristics offer no explicit weighing scheme and simply present data on disparate social indicators, allowing the reader to attach any set of weights thought appropriate. This is the approach used most often, and that followed in the 1969 federal publication Toward a Social Report. Others have used statistical techniques, particularly factor analysis, to define a set of weights for broad based social characteristics (Ross, Green, and Bluestone). A report by the National Governors' Association uses a multiple regression model in an attempt to identify weights for social and demographic characteristics.

The second problem which must be faced is inadequate data. There are few studies of the characteristics of small communities because secondary data is extremely limited. Census data, aside from certain basic items, is obtained from samples and the sample sizes are much too small to provide useful information about the characteristics of small communities.

These data limitations have caused most research on rural areas to focus on the county. But, even at the county level problems emerge. Disclosure rules prohibit publication of data which might allow the characteristics of individual firms to be identified so often data on the local economy has large gaps. Secondary data sources are both less useful and less complete in rural areas than in the metropolitan areas.

There have been many specific attempts to measure how individual regions rank on a particular social indicator. Unfortunately, data restrictions have limited studies of rural jurisdictions below the county level. In addition, efforts have generally been directed toward identifying counties which are disadvantaged rather than prosperous.

Davis, and Hoppe have identified a set of permanent low income rural counties. Stinson, a set of counties falling below a poverty line for government services. Beale and others in USDA have produced a number of studies of rural counties based on Census data. Other important studies noting and classifying rural counties include USDA's classification of county's by major source of basic income (Bender, et. al), and Green and Ross's 1987 study delineating counties by dependence on farm program payments.

Such studies can provide useful insights into local conditions. But, generalizations are difficult since there is no

way to determine which characteristics are important nor how to weight those characteristics, let alone which are causal factors and which are results. Such studies are useful for some types of evaluations, but their lack of a well defined structure for testing hypotheses makes it difficult to separate causality from association. The recent study by the Heartlands Institute of extremely viable Nebraska communities is an example of this type of study.

### Fundamental Issues for Policy Analysis

Any attempts to generalize from the characteristics and experiences of viable rural communities as a way of identifying effective economic development strategies raises important questions. The first is whether public sector intervention of any sort is appropriate. Many argue that from a national point of view economic development programs are a zero sum game and that national productivity would be enhanced if the resources devoted to attracting new industry and encouraging development were simply returned to the private sector. Those making this argument contend that the allocation of a perfectly operating market economy cannot be improved upon, and that bureaucratic and administrative costs of development programs insure that national income would increase if the public sector did not offer inducements for development.

The appropriate role for government intervention in the development process is an important philosophical question, but one of somewhat less relevance in the real world. We do not live in an economy that has all the attributes of a perfectly operating market economy. Information is not complete, and there are spatial monopolies and barriers to entry which allow individual entrepreneurs to collect monopoly rents when development occurs. In addition an existing pattern of outside subsidies is already built into the economic system. As a result, when one examines the activities and characteristics of particularly viable rural communities, one must be careful not attribute a community's health to a particular factor or activity when the amount of federal or state subsidy received may be what distinguishes it from other, similar communities.

Untangling the subsidy issue will be difficult. School aids illustrate the problem. State school aid can be seen as a subsidy to the local economy. But, they can also be seen as an attempt to improve economic efficiency by taking into account the spillover benefits from public education accruing to those outside the community. Without school aids, localities would spend less than is optimal on local schools.

Analysis is further complicated if access to an adequate quality of education is assumed to be a right of all residents.

If a particular quality of education is assigned the status of a right, it must be funded whether or not it is economically efficient. Society then has no choice but to provide the service.

Thus the amount of subsidy inherent in school aid depends on whether one tracks cash flow, or analyzes the net social benefit from the spending. It also depends on whether access to certain levels of services is seen as a guaranteed right, or only as a possibility dependent on market forces.

These questions seem very abstract, but they are at the heart of the debate over how much should be allocated to subsidize or help maintain rural communities. If one accepts a rights based approach for services like education and health care, society--through the state and federal government--must assume responsibility for insuring that minimally adequate levels of services are available to residents of declining communities. The decision on whether additional state funds should be provided to supplement local spending should not be determined by measures of costs and benefits, but rather by whether a community can afford to provide the services at the level guaranteed by society. In a rights based framework, if a community cannot afford the appropriate level of service, the state must provide the additional funds needed, no matter what the benefit cost ratio.

If a rights based approach is followed state and federal government do not face a choice of subsidizing local development efforts or of returning those funds to the taxpayers. Instead, the choice is between subsidizing development activities, thereby creating viable, self supporting communities, or of allowing market forces to shrink the community, then making higher aid payments to insure local residents have minimally adequate education and health care systems.

It still may be less costly for society to allow the market forces to work and rural communities to decline. The cost of making some communities viable surely will exceed the cost of making certain rights of access to basic services are maintained. For many communities, however, savings may be small or non-existent, especially if the external costs imposed on the destination of the migrants is included in the calculations. Research is needed to define the true costs of rural development expenditures in a rights based framework. That information is essential to establishing the boundaries of a rural development program.

Finally, there is a separate question, one of whether a focus on "community" development is too narrow. Strong political forces emphasize the community in development policy. Individuals have strong ties to their community, and growth

within its boundaries can be directly translated into increased income and wealth for local residents. But, strong, technological forces are changing the nature of the lower order central places. Many communities will be unable to offer the same services as in the 1950s and 1960s, and the complement of local shops and services a small local economy is capable of supporting is changing. Given this uncertainty, along with the problems of identifying community, obtaining data on subcounty units of government, and choosing programs which will actually affect the development prospects of a particular community, one may begin to search for other approaches.

Programs which focus on the viability of larger, multi-community trading areas are one alternative. Here public policy is directed toward insuring the economic viability of the trade area, not protecting or expanding the market share of a particular community. Such programs accept that the region will continue to restructure internally, and allow and even encourage particular communities to evolve and change over time. Policy interventions are designed to insure only that the larger economy, remains strong and viable.

Here a key is whether it is possible to broaden the perspective of rural residents. If this rural development approach is to succeed individuals can no longer concentrate only on the health of their own community. The essential interdependencies among communities, and the separate, supporting roles that particular villages, towns, and cities play and the transitions already underway must be recognized.

In this model rural residents must begin to view the particular community in which they reside in much the same way as urban residents regard their neighborhood--retaining pride in its image and using it to provide a sense of identity--but noting that growth elsewhere in the city benefits people in the neighborhood as well. Such a shift in emphasis and perspective could change the tone of the local rural development, leading to a greater emphasis on cooperative strategies and away from competition. Devising institutional changes which increase the incentives for intra-local cooperation will be a vital part of any such program.

### Potential Intervention Strategies

Rural development programs can take many forms. Public sector intervention may be limited to programs dealing with market failures, such as capital rationing and inadequate information, or they can go beyond, providing actual subsidies to those living in rural communities. The acceptability of alternative program strategies depends greatly on whether one believes that intervention should be limited to those instances



where market failures can be shown to exist, or whether one takes a broader view. If a rights based approach is followed, as discussed above, an entirely different set of tradeoffs and potential policy actions emerge.

Policy initiatives which deal with market failure are limited. Assuming perfect information, freedom of entry, and unrestricted capital flows, no explicit rural development programs are needed. Indeed, in the absence of market failure any explicit public sector intervention will cause national income to fall below levels otherwise attainable. If information is inadequate, or if there are barriers to capital flows or barriers to entry, programs which eliminate the source of market failure are appropriate. Such programs will not only help rural residents, they will also increase national product.

At the opposite end of the spectrum are programs which are designed to subsidize those presently living in rural communities so that they will remain in place. One could, for example, pay a direct income subsidy--similar to a hardship pay allowance--compensating people for the discomfort of living in smaller communities. Programs calling for direct payments to those willing to live in a particular area or community are not likely to be politically acceptable in the US, although it can be argued that current farm programs, and proposed farm programs such as the Boschwitz-Boren decoupling bill are only thinly disguised versions of direct payments to individuals desiring to reside in rural America.

Most of today's rural development programs and proposals are combinations of attempts to overcome market failure and direct subsidies. Typically these programs take one or two paths. Either additional funds are provided to the local public sector, or special incentives are made available to new or expanding businesses. Both types of subsidies can be effective in retaining rural residents, but the final distribution of benefits may be quite different. These alternatives are examined separately below.

#### Special Incentives to Private Sector Development

States and localities can assist--or subsidize--firms willing to invest in rural communities in five areas. Non-labor operating costs can be cut, land and building costs can be subsidized, labor costs can be reduced, capital can be made available, and research on new technological processes or products can be financed and donated to individual firms. All public sector rural development programs are combinations of those five strategies with a program to improve the flow of information about development opportunities.

Non-labor operating costs can be reduced in a number of ways. The simplest, oldest, and best known is the use of tax holidays or the partial elimination of property taxes for new or expanding businesses. Programs offering reduced utility costs, expanded transportation networks, and freedom from particular regulations are other ways non-labor costs may be reduced. Rural enterprise zones (both federal and state) rely heavily on the lower operating cost argument to buttress their claims of effectiveness. Small business incubators and special technical assistance for small business are further examples of public sector programs which lower non-labor operating costs.

Offers of free or low cost land and buildings also have a long history as development incentives. The industrial park, where free land is available, ready for development is an example of this type of subsidy. More recently, tax increment financing districts, where revenues from bonds backed by future increases in the local tax base are used to clear and purchase land for prospective developers, is another version of the same type of subsidy.

Direct and indirect labor costs can be reduced if the state or locality funds special training and retraining programs needed by the new firm. Such programs can improve the quality and productivity of the labor force, allowing the new firm to be more profitable at startup. Further, by substituting publicly financed training for some of the needed on-the-job training start-up costs can be reduced. Recent state programs designed to re-train farmers for job opportunities within the region are examples of programs which reduce labor costs, as are offers of special vocational training programs devoted to enhancing a particular type of skill needed by a prospective employer.

Programs subsidizing capital costs are probably the best known rural development programs. A wide variety of programs exist which are designed to improve access to capital markets and incidentally provide additional benefits to those living in qualifying rural communities. These programs usually take one of three forms: a loan guarantee--which makes capital available at a lower cost by reducing the default risk for the private lender, the direct loan--often at a subsidized or below market rate, and the grant. Industrial development bonds have been used to provide below market interest rates and a number of special state and federal development funds have been formed.

Recently there has been renewed interest in ways the public sector can stimulate economic development by creating new commercially marketable products or processes. Targeting funds toward projects which have a high probability of yielding commercial products from existing research activity is gaining popularity as a development tool. Often, in order to insure future revenues these quasi private agencies are structured as

non profit corporations which allow them to take equity positions in the firms funded or collect royalties from the processes developed.

The Greater Minnesota Corporation has received considerable attention for this innovative approach to encouraging regional economic growth. Actually, though, the idea of promoting local economic development through applied academic research is not new. Minnesota's Iron Range Resources and Rehabilitation Board (IRRRB)--established more than 40 years ago--successfully used that approach during the 1960's, funding research which led to the development of the taconite process, which in turn brought new life to Minnesota's iron ore industry. The IRRRB's efforts have not always been so successful. Substantial sums also have been spent in attempts to identify commercial uses for Minnesota's peat resources.

#### Subsidies to the Local Public Sector

An alternative to subsidizing firms to locate in rural communities may be to subsidize local consumption of public services. The resulting transfer of income flows directly to local residents in the form of better public services and lower local taxes rather than going to the developer and then indirectly to the worker. Lower local taxes increase spendable household income. Lower taxes also reduce the local cost of living making it possible for local workers to gain a cost advantage over comparable workers elsewhere.

Subsidies to the local public sector are clearly inferior to successful industrial recruitment programs. The dollar impact on a particular community from changes in the school aid formula or the local government aid program is small compared to that when a firm with 100 new jobs move in. But, unless the private sector subsidy programs described earlier are successful in attracting new economic activity, public sector subsidies may be all that is available to many rural communities. And, these subsidies can play an important role in both maintaining the local economy and in insuring that local resident's options for the future remain open.

Such an approach does not guarantee that development will occur or that the youth of the community will be able to find jobs in the region. Instead, it helps insure that local youth are able to participate fully in society because they will have the skills and education needed to compete outside the community if they choose to relocate.

## Conclusion

Economic shocks during the first half of the 1980s have heightened interest in rural development. Incomes in agriculture, mining, and forestry fell dramatically, and those drops in income have been accompanied by a restructuring and downsizing of the main street commercial sector in small town America.

Those changes, many part of an on-going evolution in the role the smallest central places play in the regional economy, have raised concern about the future of rural communities. State governments in particular have begun to pay more attention to alternative strategies and programs for encouraging rural economic growth.

Much of this activity seems to have as its goal a return to the economic structure of the 1950s--an unrealistic and undesirable result. New programs are necessary which recognize the changing roles played by small towns on the economic landscape, and which emphasize maintaining the viability of a larger economic entity. Thinking of existing rural communities as spatially separated neighborhoods may be an appropriate model for developing future programs. Careful attention must be paid during program development to insure incentives encouraging intra-local cooperation rather than competition are included.

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